



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

BILL NUMBER: Senate Bill 886 (Fourth Edition)

SHORT TITLE: Retirement Amendments.

SPONSOR(S):

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; local government funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), Disability Income Plan (DIP), and the North Carolina Public School Teachers' and Professional Educators' Investment Plan (NC 403(b)).

BILL SUMMARY:

Section 1: Extends the monthly benefit in the FRSWPF to the named beneficiary of a member killed in the line-of-duty (as defined in G.S. 143-166.2(c) for the \$50,000 death benefit). The benefit is payable until the beneficiary's death. Between June 1, 2016 and June 30, 2018, the benefit will be paid to the spouse of a member killed in the line-of-duty. Also allows all members to name a beneficiary for the return of contributions, which goes to the spouse, children, or estate, in that order, under current law.

Section 2: Separates statutes governing what is public within membership records held by the Retirement Systems Division from statutes governing what is public record within employment files held by employing agencies.

Section 3: Clarifies that certain documents can be transmitted by means other than physical mail.

Section 4: Affects Department of State Treasurer operations unrelated to the Retirement Systems, so is not addressed in this note.

Section 5: Directs the LGERS Board of Trustees to develop a contribution stabilization policy for the FRSWPF. Such policies were recently adopted for TSERS and LGERS.

Section 6: Replaces a higher education appointee as a member of the TSERS Board of Trustees with the Director of the Office of State Human Resources. Establishes the State Treasurer as the chairperson of the Boards and gives the Treasurer authority to appoint the director of the Retirement System. Requires the annual valuation report to include a supplement showing the unfunded liability using the 30-year Treasury Bond yield as the discount rate.

Section 7: Clarifies governance statutes for the NC 403(b) Plan.

Section 8: Grants the Retirement Systems Division additional flexibility in requiring reports of earnings from DIP recipients.

EFFECTIVE DATE: Parts of Section 1 become effective June 1, 2016 and parts become effective July 1, 2018. All other sections become effective when they become law.

ESTIMATED IMPACT ON STATE:

Buck Consultants, the actuary for the Retirement Systems, estimates that the line-of-duty death provision of Section 1 will increase the actuarially determined contribution for the FRSWPF by \$103,000 per year. This estimate does not reflect the payment of benefits to spouses between June 1, 2016 and June 30, 2018.

Hartman & Associates, the actuary for the General Assembly, estimates that the line-of-duty death provision of Section 1 will increase the actuarially determined contribution for the FRSWPF by approximately \$50,000 per year. This estimate does not reflect the payment of benefits to spouses between June 1, 2016 and June 30, 2018.

The Proposed Conference Committee Substitute for HB 1030 (2016 Appropriations Act) contains a revised net appropriation to the FRSWPF of \$17.6 million. Based on a June 10, 2016 letter from Buck Consultants revising the actuarially determined contribution for FY 2016-17, this amount is sufficient to cover the contribution increase due to Section 1 and adopt a contribution stabilization policy as directed by Section 5.

Both actuaries estimate that the other sections of the Fourth Edition will have no material impact on the contribution rates or liabilities of any of the systems affected. However, Buck Consultants further notes with regard to Section 3 that this measure could possibly result in more contributions or lower administrative costs for the Retirement System, which would be a positive outcome for the Retirement System. That being said, within the actuarial framework, they are unable to quantify the actuarial impact based on the information provided.

ASSUMPTIONS AND METHODOLOGY:

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2014 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2014 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>LGERS</u>	<u>FRSWPF</u>
Active Members			
Count	307,313	123,184	43,134
General Fund Compensation	\$9,865M		
Valuation Compensation (Total)	\$13,737M	\$5,652M	Not applicable

Average Age	45	44	40
Average Service	10.7	10.3	11.7
Inactive Members			
Count	134,871	55,298	153
Retired Members			
Count	194,607	60,408	12,730
Annual Benefits	\$4,058M	\$1,109M	\$26M
Average Age	70	68	68
New Retirees During 2015	11,400	4,100	600

Financial Statistics (as of 12/31/2014 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>LGERS</u>	<u>FRSWPF</u>
Accrued Liability (AL)	\$67,715M	Not meaningful	\$419M
Actuarial Value of Assets (AVA)	\$64,734M	\$22,682M	\$381M
Market Value of Assets (MVA)	\$64,587M	\$22,745M	\$383M
Unfunded Accrued Liability (AL - AVA)	\$2,981M	Not meaningful	\$38M
Funded Status (AVA / AL)	96%	Not meaningful	91%
Annual Required Contribution (ARC) for FY 2016-17 (as % of pay)	9.50% (new assumptions)	7.25% (non-LEO)	\$17.6M (prior to new lapse assumption)
Assumed Rate of Investment Return	7.25%	7.25%	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 6.86%	3.50% - 6.71%	Not applicable
Cost Method	Entry Age Normal	Frozen Entry Age	Entry Age Normal
Amortization	12 year, closed, flat \$	Not applicable	12 year, closed, flat \$
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015			

Benefit Provisions			
	<u>TSERS</u>	<u>LGERS</u>	<u>FRSWPF</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	\$170 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	55/20
Employee contribution (as % of pay)	6%	6%	\$10 per month

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from David Vanderweide.

SOURCES OF DATA:

Buck Consultants, “Administrative Changes Retirement System/Treasurer – House Bill 1134 (Committee Substitute Favorable 5/31/16)”, June 15, 2016, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 1134 Committee Substitute 5/31/16: An Act to Make Administrative Changes to the Retirement System and to Make Other Changes Affecting the State Treasurer”, June 2, 2016, original of which is on file in the General Assembly’s Fiscal Research Division.

Buck Consultants, “Adjusted Actuarially Determined Contribution for the FRSWPF for FYE 2017”, June 10, 2016, original of which is on file in the General Assembly’s Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION: (919) 733-4910.

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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DATE: June 30, 2016



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